Mole Valley Bankruptcy warning

15 November 2024

Mole Valley District Council is facing bankruptcy and must make “very difficult decisions” over the future of its services.

The bleak warning came during the Tuesday, November 12 scrutiny committee when the grim outlook was laid bare to councillors.

Unless the council makes significant savings then “in all scenarios” reserves would fall significantly below minimum levels required in 2026/27 and be exhausted between 2027 and 2029, officers said.

Councils must balance their budgets and failure to do so can lead to section 114 bankruptcy notices being issued. When this happens all new spending must stop.

Anything other than drastic cuts would put Mole Valley “at such significant financial risk” that the council’s chief financial officer would likely be legally bound to consider using statutory powers – with commissioners brought in and the council losing day-to-day control of how it is run.

Mole Valley District Council’s executive head of service (finance and strategy) Claire Morris said: “Essentially every local authority is facing very challenging savings targets.

“It is difficult. I think I need to be really honest and quite blunt with councillors, all the low hanging fruit, the easy wins, have been taken. We are now into making some very difficult decisions potentially. To achieve that savings target you will be asked to make some very difficult decisions.

“The alternative is equally less palatable. What we see by authorities that got into trouble and issued notices… is that they get taken over by commissioners and you lose control of your council. “So I can not give you any confidence that we will definitely achieve those savings targets. “What I can say is that we will all, councillors included, work very very hard to achieve those savings and identify them.

“We should be honest with our staff and what this might impact on our services. “It’s the honesty we will now have to face up to.”

The most high profile example of a council going effectively bankrupt locally is Woking Borough Council with debts approaching £2billion, with other Surrey councils also facing their own issues.

Mole Valley District Council must find £1.8m savings this year but has only managed to achieve £493,000 so far and is expected to fall short by about £1.2million.

Future years look even more challenging with costs expected to increase, and revenues fall.

The council currently makes enough money from its commercial investments to cover the annual interest rates and debt repayment costs, the meeting heard, but “is facing increased tenancy risks and additional costs as commercial leases are approaching break points or end dates and tenants are vacating the properties”, council documents said.

The council also expects any new tenancy agreements to be at lower values than at present.

Additionally there is “the risk of the council needing to incur significant capital costs of refurbishing investment properties but without a commensurate increase in income”.

Short term cash flows have been hit by a double whammy of the council failing to sell assets, and the being unable to find anyone willing to rent office space in its civic centre.

Claire Morris, the council’s chief financial officer, said: “A key area was around the letting of vacant office space within this building

“We have not yet found a tenant. We are still marketing the property, so that is ongoing, but we are continuing to market and hopeful that we will get a tenant.”

As it stands, the council then must find a further £760,000 of savings or income for the 2026/27 financial year.

“It is also recommended that the council starts to develop plans to deliver at least £1.3million of further transformation savings for 2027/28 and 2028/29.”

During that time the council is forecasting its return on assets for decrease, while budgets had inflation forecasts at 2 per cent – adding pressure.

Councillor Gerry Sevenoaks, committee chair, added: “What is in front of us is undoubtedly some very high savings targets.”